

City Manager's Budget Transmittal Memo

May 6, 1997

THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF SAN DIEGO, CALIFORNIA

The Proposed Fiscal Year 1998 Budget reflects a city recovering from a significant recession. Most essential services have been maintained and slightly enhanced from prior years. The budget reflects expenditure savings in many areas due to the City's aggressive change efforts aimed at streamlining municipal operations and making them more competitive.

THE ECONOMY

Revenue projections contained in the Proposed Budget are based on an assumption that the San Diego economy will continue to grow at a steady rate. Following several years of recession, the local economy stabilized in 1993, then resumed a pattern of growth in 1994. Aided by a strong national economy, San Diego's economy expanded at an accelerated pace in 1995, and continued that growth into 1996. Economic highlights during 1996 included the following:

- Total wage and salary employment for 1996 averaged a record 999,000, an increase of 20,400 jobs over 1995.
- Gross Regional Product climbed to a new high of \$79.1 billion during 1996, a 7.5 percent increase over 1995.
- Visitor spending during 1996 totaled a record \$4.0 billion, up 6.6 percent over 1995. Contributing to the record year was the Republican National Convention and a 4.4 percent increase in hotel occupancy rates.
- Permits issued in the City for new construction during 1996 were valued at \$934 million, up 4.2 percent over 1995.

During the remainder of 1997, the San Diego economy is projected to continue to expand at a slightly slower rate than realized in 1996.

The Mayor and Council's recent actions in cutting permit process time by 58%, reducing business taxes, and cutting water and sewer hook-up fees by as much as 73% have helped to create a positive business climate.

CHANGE EFFORTS

The City has embarked on a comprehensive effort to streamline City government. This includes an aggressive Competition Program, Zero Based Management review of 20% of City operations each year, an organizational restructuring effort, the continued implementation of Performance Based Budgeting and benchmarking, and an annual citizens survey of City services.

The Fiscal Year 1998 budget includes \$66 million in additional expenditure cuts and avoided costs due to these efforts.

FISCAL YEAR 1998 REVENUES

Toward the end of Fiscal Year 1995, most General Fund revenue categories began to exhibit stronger growth, reflective of a recovering economy. This more vigorous growth pattern has been sustained through Fiscal Years 1996 and 1997, and a moderate growth rate is anticipated for Fiscal Year 1998. Property Tax is finally starting to show signs of improvement. Sales Tax, Transient Occupancy Tax, and Motor Vehicle License Fees are forecast to continue the steady growth patterns exhibited in recent fiscal years. Economic growth estimates for the major revenue categories follow:

- Property Tax: +2.0%
- Sales Tax: +5.5%*
- Transient Occupancy Tax: +4.5%**
- Motor Vehicle License Fees: +4.0%

* The economic growth rate does not include additional revenue (\$600,000) projected to be generated by the 1998 Super Bowl, Proposition 172/Senate Bill 8 (\$4.5 million), or the additional revenue (\$100,000) projected to be generated through the Economic Development/Municipal Resource Consultants Business Outreach Program.

**The economic growth rate does not include additional revenue (\$2.5 million) projected by ConVis for the Supplemental Marketing Program or the additional revenue (\$1.9 million) projected to be generated by the 1998 Super Bowl.

Although sustained revenue growth is expected in Fiscal Year 1998, the City is relying on some onetime revenue sources to provide higher levels of service than would otherwise be possible.

The City General Fund's two major sources of revenue, Property Tax and Sales Tax, are not expected to regain their vibrant pre-recession growth rates through the remainder of this decade. Local Property Tax apportionments have been permanently diminished as a result of the Fiscal Year 1993 and Fiscal Year 1994 state budget actions. Despite the City's ongoing economic recovery, the magnitude of the Property Tax loss – in excess of \$24 million each fiscal year – has required the use of onetime revenues.

The availability of onetime revenues varies from year to year, and onetime revenues are not dependable. One method of weaning our reliance on onetime revenue sources is to continue to build upon internal strategies that have been undertaken to streamline and improve the efficiency of our organization. These strategies include Performance Based Budgeting, Competition, and Restructuring. We believe that these strategies will serve the dual purpose of improving our methods of delivering public services and enhancing our financial integrity.

The Proposed Budget relies on \$4.9 million in anticipated state return of City revenues to the General Fund and \$32.5 million in onetime revenues, which anticipates \$7.1 million in land sales. Since Fiscal Year 1991, \$179.4 million has been diverted due to state actions.

FISCAL YEAR 1998 EXPENDITURES AND OPERATING PROGRAM SUMMARY

The Fiscal Year 1998 Proposed Net Total Combined Budget is \$1,357,480,224, an increase of \$18,511,091 from the Fiscal Year 1997 Budget. A large part of the overall change is attributable to expenditure changes within Enterprise Funds (+\$32,140,672) and the Capital Improvements Program (-\$6,071,467). Proposed Fiscal Year 1998 General Fund expenditures (\$536,046,957) reflect an increase of \$28,548,320 from the current fiscal year.

FISCAL YEAR 1998 EXPENDITURES

Since 1992, the City has cut 1,054 positions in the General Fund. The ratio of General Fund positions to population is now nearly 20% less than it was in 1960 (excluding Police Officers). The recession combined with a State mandated diversion of \$179.4 million of City revenue has required significant expenditure reductions. The Fiscal Year 1998 Expenditure Plan is highlighted below:

Police

- The addition of 10.00 Police Officers, 15.00 Community Service Officers, and 15.75 support positions to assist in the neighborhood policing efforts.
- The addition of 2.00 Deputy City Attorneys to prosecute drug abatement cases and for the Neighborhood Policing section.
- The addition of \$20,000 in matching funds for the Retired Senior Volunteer Patrol (RSVP) Program.

Fire and Life Safety Services

- The addition of \$1 million to place a firefighter/paramedic in each of the City's 43 Fire Stations.
- The elimination of 1.00 Assistant Fire Chief position.
- The reduction of 1.13 truck companies using an adaptive response strategy. No fire stations will be closed.

Emergency Medical Services

- \$422,000 in funding to improve oversight of the Paramedic Program (Note: A Paramedic Program subsidy has not been included in the budget, due to ongoing negotiations).

Community and Neighborhood Services

- Additional staffing to continue the Naval Training Center (NTC) planning effort.
- Additional funding for four new Community Service Centers.
- Additional funding for four new branch libraries and 14 new recreation facilities.

- Additional \$100,000 for the Park and Recreation Department Matching Funds Program.
- Expansion of recreation center staffing.
- Elimination of \$685,000 in parking meter revenue from General Fund programs for use by Parking Meter Districts throughout the City.

Public Works

- Additional \$3.2 million for street resurfacing and slurry sealing.
- Reduction of \$8.1 million and 42.50 positions due to efficiency efforts in the Water Department.
- Addition of 25 positions in Metropolitan Wastewater Department for new facilities and increase of \$17 million in expenses.
- Elimination of \$1.3 million in operating expenses and an increase of \$16.1 for acquisition of new equipment to upgrade fleet.
- Elimination of 14.33 positions and \$1,000,000 due to the addition of 70,000 additional households to the automated trash collection program.
- Expansion of Greenery Recycling Program to 20,000 households.
- Reduction of \$1.3 million in Water and Metropolitan Wastewater Departments' overhead charges.

1998 Super Bowl

- Additional \$650,000 for City support of Super Bowl.

The budget does not address the continuing backlog of deferred building maintenance.

CAPITAL IMPROVEMENTS PROGRAM

The highlights of the Fiscal Year 1998 Capital Improvements Program are as follows:

- \$248.7 million to continue the \$2.5 billion upgrade of the City's metropolitan and municipal wastewater system. This includes the North City Water Reclamation Plant, the Reclaimed Water Distribution System, and the relocation of the Fiesta Island Sludge Facility to the Miramar Biosolids Facility.
- \$2.6 million in storm drain projects, including the Beach Area Low Flow project which will allow for sewer overflows and low flow storm runoff to return to the sewer, preventing pollution in the beach areas.
- The continuation of \$80.7 million in Balboa Park and Mission Bay improvements.
- \$13.9 million for water improvements; this does not include the \$773 million in the Capital Improvements Program pending before City Council.
- \$36 million to complete the Stadium renovation.
- \$9.3 million to design and begin construction of the Central Area Police Station.
- Continuation of the design for the \$62 million San Diego Main Library (exact cost of project will be determined when design is completed).
- \$290,000 for conversion of Designated Street Lights.
- \$3.4 million for Carmel Mountain Road – Interstate 5 Interchange.
- \$3.6 million for Carmel Mountain Road – 300 Feet East of Portofino Drive to Del Mar.
- \$3.8 million for College Grove Drive – 54th Street to College Grove Way.
- \$2.7 million for Georgia Street Bridge/University Avenue Separation.
- \$2.3 million for Hollister Street (Bailey) Bridge Over Tia Juana River.
- \$1.0 million for Mira Mesa Community Transit Center.

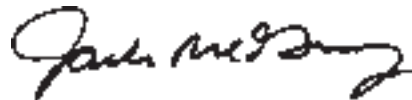
- \$5.0 million for State Route 905 (I-805 to SR 125) for right-of-way protection and Environmental Impact Statement.
- Continuation of Otay Mesa Road widening from four lanes to six lanes (I-805 to La Media Road). This is a \$20 million joint City/State project to facilitate traffic generated by the North America Free Trade Agreement (NAFTA) and the new border crossing.
- \$3.7 million for State Route 56 – Black Mountain Road to West Community Boundary.
- \$24.1 million for State Route 56 – Carmel Valley to Rancho Peñasquitos.
- \$1.2 million for Golden Triangle Traffic Signal Interconnect System.

CONCLUSION

The City has effectively compensated for recessionary losses and the State of California's diversion of local revenues by increased emphasis on attracting new commerce; the use of multiple programs designed to increase efficiency, reduce costs and enhance services; and the use of onetime revenues. Because of the use of these onetime revenues have been relied upon over the past six years, they have become increasingly difficult to identify. As a result, the City must attack its funding challenges differently. The use of onetime revenues in the General Fund must be significantly reduced in future years to eliminate this structural problem.

During the budget discussions, we will propose that during Fiscal Year 1998 each business center be authorized to retain 25% of each center's expenditure savings up to a maximum of 2% of the center's total budget appropriations. These savings will be used to improve each center's technology. In addition, we will achieve a goal during Fiscal Year 1998 of eliminating 250 positions in the City's budgeted workforce. These changes will insure our competitiveness in the future.

Respectfully submitted,



Jack McGrory
City Manager